

**REPORT OF THE AUDIT OF THE
CHRISTIAN COUNTY
CLERK**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CHRISTIAN COUNTY CLERK

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the Christian County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statements present fairly in all material respects, the revenues and expenditures of the County Clerk and the revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Christian County Clerk had total revenues of \$11,103,782, which was a \$258,006 increase from the prior year. Except for 100% operating fees in the amount of \$153,121, the County Clerk paid 25% of operating revenues to the Christian County Fiscal Court in the amount of \$285,439. This was an increase of \$1,629 from the prior year. In addition, 75% account disbursements increased by \$103,363 and the County Clerk remitted \$256,949 operating fund balance to the Christian County Fiscal Court.

Report Comments:

2010-01 The County Clerk Should Follow KRS 424.260 Bid Requirements
2010-02 The County Clerk Should Properly Calculate and Grant Compensatory Time

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Tribble, Christian County Judge/Executive
Honorable Michael Kem, Christian County Clerk
Members of the Christian County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Clerk of Christian County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2010. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and fund balances for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 6, 2011 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Steve Tribble, Christian County Judge/Executive
Honorable Michael Kem, Christian County Clerk
Members of the Christian County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2010-01 The County Clerk Should Follow KRS 424.260 Bid Requirements
2010-02 The County Clerk Should Properly Calculate and Grant Compensatory Time

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Christian County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

July 6, 2011

CHRISTIAN COUNTY
MICHAEL KEM, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State Grants		\$	13,193
State Fees For Services			22,205
Fiscal Court			9,104
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,875,209	
Usage Tax		4,396,945	
Tangible Personal Property Tax		3,473,215	
Other-			
Marriage Licenses		30,281	
Occupational Licenses		4,448	
Beer and Liquor Licenses		8,361	
Affordable Housing		56,802	
Lien Fees		21,708	
Deed Transfer Tax		132,494	
Delinquent Taxes		630,361	10,629,824
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		23,859	
Real Estate Mortgages		88,778	
Chattel Mortgages and Financing Statements		148,312	
Powers of Attorney		2,665	
All Other Recordings		68,825	
Passports		26,875	
Web Access Fees - Recordings		28,700	
Charges for Other Services-			
Candidate Filing Fees		4,072	
Copywork		5,352	
Vehicle Inspections		220	
Debit Card Transaction Fees		4,615	
Returned Check Fees		1,075	403,348
Other:			
Imprest Balance		20,000	
Miscellaneous		5,063	25,063
Interest Earned			1,045
Total Revenues			11,103,782

The accompanying notes are an integral part of the financial statements.

CHRISTIAN COUNTY
MICHAEL KEM, COUNTY CLERK
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 1,363,825

Usage Tax 4,257,996

Tangible Personal Property Tax 1,202,863

Licenses, Taxes, and Fees-

Marriage 12,369

Delinquent Tax 90,289

Legal Process Tax 44,018

Affordable Housing 53,757 \$ 7,025,117

Payments to Fiscal Court:

Tangible Personal Property Tax 288,011

Delinquent Tax 96,867

Deed Transfer Tax 137,358 522,236

Payments to Other Districts:

Tangible Personal Property Tax 1,838,191

Delinquent Tax 243,260 2,081,451

Payments to Sheriff

53,817

Payments to County Attorney

84,565

Operating Expenditures:

Service Charges 7,247

Vehicle Inspections 215

Returned Checks 1,915

Miscellaneous (Includes Overpayments) 19,148

Library and Archives Expenses 13,193 41,718

Total Expenditures \$ 9,808,904

Net Revenues 1,294,878

Payments to State Treasurer:

75% Operating Fund 1,009,439

25% County Fund 285,439 1,294,878

Balance Due at Completion of Audit \$ 0

The accompanying notes are an integral part of the financial statements.

CHRISTIAN COUNTY
MICHAEL KEM, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2010

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2010	\$ 281,853	\$	\$ 281,853
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,009,439		1,009,439
Fees Paid to State - County Funds (25%)		285,439	285,439
Total Funds Available	1,291,292	285,439	1,576,731
<u>Expenditures</u>			
Christian County Government	256,949	285,439	542,388
Personnel Services-			
Clerk's Salary	97,848		97,848
Clerk's Training Incentive	3,624		3,624
Clerk's Expense Allowance	3,600		3,600
Deputies Salaries	430,584		430,584
Employee Benefits-			
Employer's Share Social Security	36,534		36,534
Employer's Share Retirement	78,647		78,647
Employer's Paid Health Insurance	196,451		196,451
Contracted Services-			
Computer Consultants/Software	61,528		61,528
Advertising	5,978		5,978
Other	31,409		31,409
Supplies and Materials-			
Office Supplies	23,863		23,863
Other Charges-			
Conventions and Travel	8,424		8,424
Dues	2,198		2,198
Postage	11,865		11,865
Duplicating Supplies	3,967		3,967

The accompanying notes are an integral part of the financial statements.

CHRISTIAN COUNTY
MICHAEL KEM, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures (Continued)</u>			
Other Charges-(Continued)			
Maintenance and Repairs	\$ 11,521	\$	\$ 11,521
Insurance	3,462		3,462
Telephone and Internet	3,948		3,948
Uniforms	753		753
Capital Outlay-			
Office Equipment	14,150		14,150
Furniture and Fixtures	3,989		3,989
Total Expenditures	<u>1,291,292</u>	<u>285,439</u>	<u>1,576,731</u>
Fund Balance - December 31, 2010	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

CHRISTIAN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Clerk as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections
- Payroll expenditures incurred but not paid
- Payments due vendors for goods or services provided in 2010

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

CHRISTIAN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

CHRISTIAN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010
(Continued)

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Libraries and Archives Local Records Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives. The Christian County Treasurer's Office handles the grant funds. The beginning balance as of January 1, 2010 was \$13,199. Interest in the amount of \$2 was received during the year. Funds totaling \$13,193 were expended during the year. The unexpended grant balance was \$8 as of December 31, 2010.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Tribble, Christian County Judge/Executive
The Honorable Michael Kem, Christian County Clerk
Members of the Christian County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Christian County Clerk for the year ended December 31, 2010, and have issued our report thereon dated July 6, 2011. The County Clerk's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Christian County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Christian County Clerk's financial statements for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2010-01 and 2010-02.

The Christian County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Christian County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

July 6, 2011

COMMENTS AND RECOMMENDATIONS

CHRISTIAN COUNTY
MICHAEL KEM, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

STATE LAWS AND REGULATIONS:

2010-01 The County Clerk Should Follow KRS 424.260 Bid Requirements

During testing of expenditures we noted a purchase for a new data management system in the amount of \$40,000 that was not properly bid. In addition, the agreement requires monthly payments of \$2,240 for 48 months. KRS 424.260 states "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." We recommend the County Clerk follow the bid requirements of KRS 423.260.

County Clerk's Response: In Cott Systems company overview, they state the following "Cott is driving new technologies and services for local governments by employing up-to-the-minute information and workflow automation, data management, and migration, professional services, hosting and disaster planning services." This being said I researched and discovered that software developers in (at least in Kentucky) do not have professional licenses. Even though this is a one of a kind product I believe that advertising for bids is the proper thing to do. I therefore agree with the auditor.

2010-02 The County Clerk Should Properly Calculate and Grant Compensatory Time

During testing of payroll, we noted the County Clerk has adopted a Compensatory time policy in lieu of overtime. The County Clerk did not properly compute compensatory time for individuals who worked in excess of 40 hours a week. If the employee had been off, for any reason that week, compensatory time was not properly granted. Also when employees worked in excess of the scheduled work hours, employees were not granted compensatory time on a consistent basis. KRS 337.285 prescribes that if an employee works more than 40 hours in a week but was off using paid time off such as vacation, sick or holiday pay, compensatory time should have been granted at on an hour for hour basis until the employee reached 40 hours actually worked. Any overtime in excess of 40 hours worked should be paid at of one and one half hours for each hour the employee worked in excess of 40 hours. Also, employees who work in excess of the prescribed hours per week but less than 40 hours be granted compensatory time on an hour per hour basis.

County Clerk's Response: I agree with the auditor, I was not allowing enough compensatory time. My confusion was created from my many years in the private sector where "Comp" time does not exist. We are going back and adding time and arrived at a total of 17 hours 22 minutes for the entire office. Employees are required to ask permission to work overtime.

